



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **3 VAC 5-30 – Alcoholic Beverage Control Board Customized Advertising Materials** January 4, 2002

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The proposed regulations will allow alcoholic beverage manufacturers, bottlers, brokers, importers, and wholesalers to provide customized point-of-sale advertising materials to retail licensees.

### **Estimated Economic Impact**

The Alcoholic Beverage Control Board (the board) proposes to create an exception to the current prohibition of providing customized point-of-sale alcohol advertising materials to retail licensees. The board will allow alcoholic beverage manufacturers, bottlers, brokers, importers, or wholesalers to provide customized materials to retail licensees. These materials must be lawful, must be strictly for interior use, must contain references to the provider of such items, and must be available to all licensees. These materials are non-durable and are often made of paper or plastic. Examples of these materials include banners, posters, and signs.

According to the Department of Alcoholic Beverage Control (the department), this amendment is proposed in response to the requests made by the Virginia Beer Wholesalers Association. The proposed exception will provide wholesalers and manufacturers additional means to promote their products through the retailers and will increase the types of inducements the retailer can receive. Manufacturers and wholesalers have incentives to provide customized advertising materials to retailers. These materials provide them an additional form of advertising to promote their products at the retail stores. Wholesaler's costs will likely increase because they will be providing these materials. The cost of these materials is believed to be higher relative to their generic counterparts because customization increases production costs. Manufacturers and wholesalers are likely to take advantage of the proposed change if it is beneficial for them. It is estimated that about \$100,000 worth of such items may be distributed annually to retailers in Virginia.<sup>1</sup>

Similarly, retailers have incentives to receive such items because they will be provided access to free advertising materials and their businesses will be promoted due to the customized nature of these items. Customization has the potential to promote a specific location while increasing brand identification. Retailers are likely to benefit from the proposed regulations because they can refuse such materials if they are not beneficial for them. Also, the retailers' source of advertising may change. Retailers may substitute these customized advertising materials that will be provided by the wholesalers for some of the advertising materials they are currently paying to promote their retail stores. This is likely to provide some advertising cost savings for the retailers.

It is important to note that the proposed amendment provides manufacturers and wholesalers an additional form of advertising. The level of advertising is likely to increase. These advertising materials could influence the retailers and the consumers, consumers being the ultimate advertising target. If the proposed exemption promotes alcohol consumption, the social costs are likely to increase. The social costs of alcohol consumption may stem from alcohol related accidents, aggressive behavior, diseases, and abuse. For example, based on the 1998 data, the department reports that 336 people were killed and 8,555 were injured in alcohol related traffic accidents. Moreover, 30,012 persons were arrested for driving under the influence of

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<sup>1</sup> Source: Virginia Beer Wholesalers Association

alcohol and about 88% of these arrests resulted in convictions. These alcohol related deaths, injuries, arrests, and convictions impose costs on the society.

However, the industry argument for alcohol advertising is that the advertising does not increase the total alcohol consumption but rather affects the market share of a specific brand. Hence, the industry does not believe that alcohol advertising introduces social costs. Furthermore, the industry representatives point out the difficulty in establishing a link among advertising, alcohol consumption, and social costs. It is argued that social costs occur due to over-consumption of alcohol, and advertising does not promote over-consumption. There is no data to determine if the total alcohol consumption, market share, or both would be affected, or if any, what the size of the impact on social costs would be.

Additionally, the department indicates that the proposed change may compromise some of the separation of retailer interests from the interests of manufacturers and wholesalers. The lack of separation of interests is believed to have the potential to promote over-consumption of alcoholic beverages and to reduce consumer choice. However, there does not appear to be significant evidence that the separation of interests provides any significant economic benefits, nor does economic theory suggest this should be the case. Thus, the proposed change is unlikely to introduce additional costs due to the compromise of the separation of retailer interests from the interests of manufacturers and wholesalers.

## **Businesses and Entities Affected**

There are about 12,000 licensed alcoholic beverage retailers and 230 wholesalers in Virginia.

## **Localities Particularly Affected**

The proposed regulations apply throughout the Commonwealth.

## **Projected Impact on Employment**

To the extent that the proposed regulations increase the production of customized point-of-sale advertising materials, a corresponding employment increase in the relevant industry is expected. Furthermore, if alcohol consumption increases, there may be additional employment in alcoholic beverage industry.

## **Effects on the Use and Value of Private Property**

Any increase in profits due to the production of customized point-of-sale advertising materials and/or alcoholic beverages is likely to be reflected in the value of the associated businesses.